

Chinese economy overtakes Japan

China has almost certainly overtaken Japan to become the world's second-biggest economy after state officials dramatically upgraded their estimates for the country's growth last year.

The fast-growing emerging economy had been expected to surpass Japan next year, but the transition looks to have happened in 2009, based on China's new growth estimates. Its statistics bureau said that China grew by 9.6pc – rather than 9pc – in 2008, meaning its economic output was 31.405 trillion yuan, or \$4.6 trillion (£2.9 trillion), last year.

According to the World Bank, Japan's annual output was the equivalent of \$4.9 trillion last year, but it is expected to shrink by 6.6pc this year. Meanwhile, Chinese officials project that its economy will grow by more than 8pc this year. It means it is likely that China became a larger economy than Japan some time in the second half of this year.

Statisticians said the bigger-than-expected expansion last year was fuelled largely by strong growth from the services sector, something which was only uncovered after a detailed census into economic activity during the year. The revisions continue a recent trend of officials upgrading their estimates for previous years' economic growth.

In 2005, its statisticians dramatically upgraded their estimates of the size of the economy, catapulting it over Britain to become, at the time, the world's fifth biggest economy.

Peng Zhilong, the head of the bureau's national economy calculation department, said that the main difference was in the overall size of the economy, rather than its growth rate, adding that China would expand by more than 8pc this year. David Cohen, of Action Economics in Singapore, said: "The big underlying factor propelling China's growth is the migration of people from the agricultural sector to the more modern economy – industry and services. There's no stopping China."

But although China's breakneck expansion looks likely to continue for some time yet, there are concerns over the country's path.

Some economists compare China's position – with the authorities combining low interest rates with high government investment and rising asset prices – to Japan in the late-1980s, warning that it, too, could fall victim to a crash. Some worry about the country's demography. The one-child policy means that in the coming years its population is likely to age extremely quickly, increasing the pressure on its public finances and dampening its long-term growth prospects.

Nevertheless, the news about the country's strong growth will add to hopes that it will help support the wider world economy out of recession next year. Whereas 2009 was the year that brought the first worldwide economic contraction since the Second World War, the opening quarter of 2010 is expected to see the major economies back in growth again.

Although Britain contracted by 0.2pc in the third quarter of 2009, according to the latest official statistics, it is expected to move back towards growth in the final quarter of the year.

However, economists said the first quarter of 2010 would be marked by increasing tension over the fiscal position of various countries. Having had to borrow unprecedented amounts in order to prevent a deeper recession, a number of countries have generated large deficits, which may scare off international investors.

(Source: Telegraph)

U.S. jobless claims, goods orders signal modest rebound



WASHINGTON (AP) — A fitful economic recovery is drawing strength from a stabilizing job market and signs that manufacturing will contribute to the rebound.

The evidence signals a better-than-expected end to the year, though doubts remain about growth in 2010.

The latest signs of improvement came in two reports Thursday. The Labor Department said the number of newly laid-off workers filing claims for unemployment aid fell more than expected last week.

The four-week average for claims, which smoothes out fluctuations, fell for the 16th straight week, to its lowest point since September 2008, when the financial crisis hit with full force.

Further evidence of a gradually healing economy was a Commerce Department report that orders to U.S. factories for big-ticket durable goods rose in November. The overall increase was less than expected.

But excluding the volatile transportation category, the gains were twice what economists had forecast.

Stocks rose after the positive reports, ending a holiday-shortened session at new highs for the year. The Dow Jones industrial average gained about 53 points, or 0.5 percent.

Economists saw the new data as further signs that the economy is strengthening as 2009 nears a close. Adding to the optimism was a wave of shoppers — some snowed in by last weekend's East Coast snowstorm — heading to the malls for last-minute purchases Thursday.

"We are seeing progress in a number of areas, from increases in consumer spending and business spending to growth in exports," said Brian Bethune, an economist at IHS Global Economics. "It all adds up to a recovery that is gaining some momentum."

Bethune said he's forecasting that the economy, as measured by the gross domestic product, will expand at an annual rate of around 4 percent in the current quarter. Helping fuel the gains, businesses are boosting

orders to factories to restock their depleted shelves. Bethune said growth would likely slow in 2010 to a rate of around 2.5 percent. But he said there will be enough momentum to remove the threat that the recovery from the nation's deepest recession in seven decades might falter.

Other economists agreed that the rebound in factory orders reflected rising confidence by businesses.

Orders for durable goods edged up 0.2 percent last month, weaker than the 0.5 percent gain economists had expected. But excluding transportation, orders rose 2 percent over the October level, double what economists had forecast.

Demand for commercial aircraft plunged 32.6 percent. Total orders for transportation products sank 5.5 percent as demand for motor vehicles and parts edged down 0.2 percent, the weakest showing in five months.

Strength in November came in areas such as orders for machinery, which rose 3.5 percent. Orders for primary metals such as steel grew 1.4 percent. And orders for computers and electronic products jumped 3.7 percent, the biggest gain since February.

Analysts noted that demand for non-defense capital goods excluding aircraft, considered a proxy for business equipment spending plans, posted a solid rise of 2.9 percent.

"Firms are starting to believe they can come out of their shells and start thinking about the future," said Joel Naroff, chief economist at Naroff Economic Advisors. "It looks like the business community has concluded this recovery is for real."

The number of new jobless claims fell to 452,000 last week on a seasonally adjusted basis. That was better than the decline to 470,000 that economists had expected. And the four-week average for claims, which smoothes out fluctuations, fell to 465,250.

The decline in claims continued a trend that began last summer. The improvement is seen as a sign that jobs cuts are slowing and hiring could pick up early next year.

The government cautioned that seasonal employment from holidays and other variables in the calendar made last week a difficult one to seasonally adjust.

The actual number of new claims exceeded the previous week's total. But the process of adjusting for seasonal variation reduced the number.

Economists monitor jobless claims as a gauge of the pace of layoffs. Analysts say initial claims need to fall to about 425,000 for several weeks to signal the economy is actually starting to add jobs.

The government said the number of people continuing to receive regular jobless benefits fell by 127,000 to 5.08 million for the week ending Dec. 12. That figure doesn't include millions of people who have used up the 26 weeks of benefits typically provided by states and are now receiving extended benefits for up to 73 more weeks.

The number of people receiving extended benefits jumped to 4.37 million for the week ending Dec. 5, an increase of 141,807 from the previous week.

That surge illustrated that high unemployment persists despite fewer layoffs. It also reflects the fact that 38 states are now processing claims for the extension of benefits that Congress approved last month.

The jobless rate dipped in November to 10 percent, down from a 26-year high of 10.2 percent in October. Some analysts fear unemployment will resume rising in coming months and won't peak until hitting 10.5 percent next summer.

Still, the November jobless report showed that businesses slashed their payrolls by just 11,000 jobs on net in November, the smallest decrease since the recession began two years ago.

Argentina's economy may grow in 2010

BUENOS AIRES (Reuters) — Argentina's economy could grow up to 7 percent in 2010 as the worst of the global financial crisis eases, Economy Minister Amado Boudou was quoted as saying in a local paper on Saturday.

When asked by the daily La Nacion if the country could grow up to 7 percent next year Boudou said: "Yes, we are not afraid of reaching the highest level possible."

Critics say the Argentine government is usually too optimistic with its economic expectations.

Private experts forecast the economy will contract in 2009, though the government says the economy will grow slightly.

Boudou also said the government could allow retail "holdout" creditors not to subscribe to fresh capital in a swap of defaulted debt that aims to allow the South American country to return to the international debt markets.

Argentina plans to launch an offer next month to swap some

\$20 billion in defaulted debt that is still in the hands of "holdout" investors who did not accept a controversial debt restructuring in 2005. A deal with those investors is essential for Argentina to be able to issue an international bond.

Earlier this month Argentina filed a shelf offering with the U.S. Securities and Exchange Commission for the sale of up to \$15 billion in debt instruments in the United States.

Boudou reiterated that a 60 percent participation in the debt swap would be "very good."

Argentina plans to swap defaulted sovereign bonds for new issues. Argentina has been shunned from the international capital markets for eight years since a default of nearly \$100 billion. The country is now trying to regain investor confidence as it faces tight financing next year.

Boudou has wooed international investors in recent months with a series of market-friendly gestures.

Japan can avoid double-dip recession: minister

TOKYO (Reuters) — Japanese National Strategy Minister Naoto Kan said on Sunday the country's economy can avoid a double-dip recession thanks to economic recovery abroad, fiscal stimulus by the government and better market conditions.

Japan's economy is in deflation and the three-month old Democratic Party-led government fears a return to a recession next year, especially ahead of an upper house election in mid-2010, although a recent rise in Japanese exports have eased such worries.

Still, analysts expect the world's No. 2 economy to grow very slowly in the first half of next year.

"Economies in Asia and the world have rebounded, and our fiscal spending ... is expected to boost demand," Kan said on a TV Asahi talk show program. "The yen is weaker and share prices have recovered to above 10,000 yen levels. I think we can avoid a double-dip recession."

Japan's government approved on Friday a record 92.3 trillion yen (\$1 trillion) budget for the next fiscal year starting from April 1, achieving its self-imposed cap on new bond issues amid investor worries about a bulging public debt.

Kan also said the environment sector would be the most important focus in the government's growth strategy plan, ex-

pected to be unveiled around December 30, adding that it should be regarded as a new area of creating more demand in the economy.

Japanese business daily Nikkei reported on Sunday that the government's growth strategy plan over the next 10 years to 2020 would include a target of creating 1.4 million new jobs in the environment sector and 2.85 million new jobs in the health sector.

The Yomiuri newspaper said on Sunday the government's plan would include a target of boosting public and private investment in research and development of the science and technology sector to more than 4 percent of GDP.

PERSPECTIVE

The real windfall

By Economist writers

London as a financial centre

British Airways lost £292m (\$465m) in the six months to the end of September and its pension fund has a £3.7 billion deficit. Its cabin crew responded by voting to strike over the Christmas period, alienating the millions of customers that pay their wages and fund those pensions. Similarly, London now risks losing its reputation as a hub of international finance, driving away mobile capital and taxpayers at a time when the government's deficit is above 10 percent of GDP. There will be no immediate exodus. But the impression that tax policy is now designed to maximize the number of Labour votes rather than the state's revenue should worry Britons as well as financiers.

No single tax change has been decisive, though the levy on bank bonuses, announced on December 9th, has brought the issue into focus. This newspaper has argued that it is fair for the taxpayer to claw back the huge subsidy that all banks have enjoyed: the cheap money and guarantees were provided to help banks continue lending and build up their capital, rather than distributing the money to staff. A globally coordinated approach to this could have worked. But Gordon Brown's rushed attempt to punish the rich seems ever more cack-handed.

The immediate worry is that it is not just banks that are being caught in his net. One British money-broker, Tullett Prebon, has responded by offering staff the chance to relocate overseas. And the levy came on top of a forthcoming 50 percent tax rate for high earners, changes to the rules for expatriates living in Britain and pension regulations that create the potential for marginal tax rates of over 100 percent. For a fund manager, insurer or indeed pretty much any rich foreigner, the overall effect has been to make British tax policy seem arbitrary and capricious.

Good riddance, some British voters, egged on by Mr. Brown, might say. They are tired of the whingeing of overpaid financiers, especially foreign ones, and believe the economy has become overexposed to the banking industry. It is time, they say, for finance to repay its debt to society. Yet if a hedge fund moves from London to Geneva, it does not reduce the risk of the British financial system one jot. That risk depends on the lending policies of the British banks which the government in effect guarantees, as the recent crisis has revealed. And the banks are not confined to lending to British residents; as the crisis has also shown, British banks are exposed to everything from subprime housing in Florida to office blocks in Dubai.

Moreover, if a wealthy Swede decides to move back to Stockholm or a French businessman returns to Paris (with the encouragement of a tax deal from President Nicolas Sarkozy), Britain can only be the loser in revenue terms. The same applies if a foreign bank switches all or part of its operations from London to New York or Zurich. Foreign financiers will simply pay their taxes elsewhere. Revenue from overseas citizens visiting, residing in, or doing business in Britain is a true "windfall tax" in the sense that it boosts tax revenues. Even if all the tax they pay is VAT on expensive meals in London restaurants or stamp duty on flats in Mayfair, it is still additional income for Mr. Brown. If they leave, Britons will pay more tax.

London's status as a global financial centre is, in part, an historical accident driven by American regulations in the 1960s that created an offshore lending business (the Euromarket) in Britain. Over the years London built on that opportunity by welcoming foreign market-makers (the Big Bang reform of 1986) and by offering a regulatory structure that seemed more appealing than those on offer in Paris or Frankfurt. Tax laws persuaded some of the global elite to spend at least part of the year in Britain. Wall Street banks moved a good chunk of their operations to the City (London's ancient financial district) and Canary Wharf; London became a hub in areas such as fund management and derivatives trading. These things can be done anywhere; Britain merely offered the best environment.

Those banks and businessmen did not come to London because of the attractions of the rest of the British economy (see article). If they want to be based in a huge market, they will go to America; if they are lured by a fast-growing economy, they will head for Asia. Nor have foreigners been brought to London by the weather or the creaking transport system.

Go, and take your lousy tax payments with you

Of course, London will not lose its status as a leading financial hub overnight. Some European countries may be following its lead on bonus taxes, and in America Congress may well take advantage of popular anger to clamp down on Wall Street. But if London is to maintain its status as a financial hub, it needs to attract foreign financiers, not drive them away.

(Source: The Economist)